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RUEHKL/AMEMBASSY KUALA LUMPUR 0007
RUEHMO/AMEMBASSY MOSCOW 2937
RUEHNT/AMEMBASSY TASHKENT 4970
RHEBAAA/DEPT OF ENERGY WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUEAIIA/CIA WASHDC
RHMFISS/CDR USCENTCOM MACDILL AFB FL//CCJ2/HSE/CCJ5//
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RHEFDIA/DIA WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 000856

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DEPARTMENT FOR EUR/SCA (PERRY), EUR (MBRYZA)

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TAGS: [ECON](#) [ENRG](#) [EPET](#) [MY](#) [TX](#)

SUBJECT: PETRONAS POSSIBLY LOOKING TO EXPAND ACTIVITIES IN
TURKMENISTAN

Classified By: Charge Jennifer Brush for reasons 1.4 (B) and (D)

Summary

¶1. (C) Judging by insights provided by the U.S. firm Transocean, the Malaysian Oil Giant Petronas is both consolidating and looking to expand its activities in Turkmenistan. Transocean has drilled four commercially viable wells for Petronas in offshore Block 1 in the Caspian Sea. After the discovery of both oil and gas deposits, Petronas installed an imported offshore production, floating storage and offloading system to manage its oil production, but has continued to burn the gas until it can make arrangements to transport the natural gas onshore. Plans by Petronas to build a natural gas pipeline to link its offshore discoveries with the existing onshore network are contingent on Petronas upgrading the natural gas pipeline to Kazakhstan at its own expense. End Summary.

Petronas Finds New Gas Reserves

¶2. (C) Transocean Turkmenistan Branch General Manager Vincent Berthou (please protect) briefed Embassy about his firm's drilling operations under its contract with the Malaysian firm, Petronas. Houston-based Transocean has been operating one jack-up rig, the Trident 20, in Turkmenistan's offshore Block 1 on behalf of Petronas since 2004. Since signing its seven-year contract with Petronas in 2003, Transocean has drilled five wells in Turkmen waters. Four of the five wells struck commercial deposits of hydrocarbons, mostly natural gas.

¶3. (C) According to Berthou, Petronas imported a mobile offshore production unit and a floating storage and offloading system into Turkmenistan in early 2006 in order to eliminate the need to lay pipe to transport the oil to shore. After filling the system in March 2006, Petronas stopped production because it had no lifting agreement for the Turkmen portion of the oil. Turkmen media reported that President Niyazov signed the relevant resolution instructing Turkmennebit, the state oil company, to lift and offload the crude oil at the Turkmenbashi refinery. With this, the

offshore production, floating storage and offloading systems became fully functioning and oil exports to Azerbaijan and Iran commenced.

¶4. (C) However, Berthou noted, the unexpected discovery of large gas deposits had created a mixed blessing for Petronas, which had no provisions for transporting the gas and was instead burning the gas until it could construct a system for getting the gas ashore. Berthou added that Petronas planned to construct a natural gas pipeline from its offshore facilities to Kiyarly, a settlement north of Turkmenbashi, by ¶2009. A Buried Hill Energy representative later informed Embassy that Petronas would use the government's onshore gas pipeline network to ship natural gas north into Kazakhstan. In exchange for access to the pipeline, Petronas would upgrade the system at its own expense.

Doing Business in Turkmenistan

¶5. (C) Transocean, operating under the 1996 Petronas PSA umbrella, has experienced no significant problems in Turkmenistan. Berthou commented that procedures for the import of spare parts and equipment from Scotland and the United States had eased. However, he noted, the government was now enforcing a long dormant insurance law, first passed in 1996, requiring 15 percent of an asset's value to be insured within Turkmenistan. (Previously, the requirement had been five percent.) The state-owned insurance company, the only one licensed to operate in Turkmenistan, provided the necessary coverage. In recent months, Transocean had run into a new snag with this arrangement, because the insurance company could only operate with certification by the Finance Minister -- something difficult to obtain given that the

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Finance Minister position has been vacant for approximately the last five months.

Comment

¶6. (C) Petronas has consistently avoided direct contact with embassy personnel and, in fact, is rumored to have released one AMCIT manager because of his nationality and previous affiliation with USG-programs in Turkmenistan. Petronas representatives sit on the Ashgabat International Advisory Board but have not agreed to meet with Charge to discuss the school's registration's problems. No Petronas representatives accepted embassy's invitations to its Independence Day reception. Embassy will continue to attempt to engage with Petronas. In order to do business in Turkmenistan, foreign companies typically do not play by internationally established rules and continue to operate based on a personal relationship with the president. Embassy can only guess that reluctance to interact with us indicates a reluctance to divulge Petronas's business practices in Turkmenistan. Plans to upgrade the gas pipeline network may increase Turkmenistan's ability to export product to Russia and beyond.

BRUSH